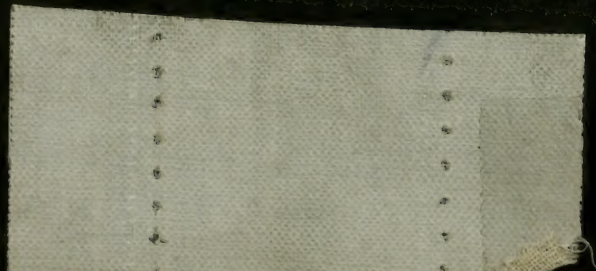

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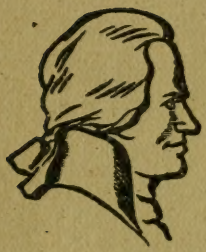
UNBALANCED BUSINESS



MODERN BUSINESS
TALK No. 7

ALEXANDER HAMILTON INSTITUTE
NEW YORK

Unbalanced Business

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READING ASSIGNMENT
NUMBER SEVEN

"In all forms of administration there are three elements which are always present—planning, giving orders and supervision. . . . The order in which they have been named indicates not only their sequence in time, but also . . . their order of importance."—Page 33, Chapter IV, Volume 4 of the MODERN BUSINESS TEXT.

(1) Read this Talk on "Unbalanced Business." Every form of business administration has for its chief purpose the maintenance of balance in the activities of its functions. Where this balance is lacking, trouble ensues. This Talk points out some of the factors that affect the balance of a business.

(2) Read Chapters I-XIII (pages 1 to 187 inclusive), of "Factory and Office Administration," which is the fourth volume of the MODERN BUSINESS Text.

(3) Read with care Lecture No. 4 which accompanies this Talk.

Whether a man is an executive or a worker in the ranks, it is necessary to forge ahead if one would avoid falling behind. The president of a large railroad was asked whether he wasn't afraid of the young sons of some of the wealthy directors of the road. They were about ready for something to do. "No," he said, "but I am afraid of the young machinists, clerks and department heads down the line. Some of them are ahead of schedule. I must look to my job."

I hold that the most important thing is not the quantity of knowledge which a man has taken in and can pour out again, but the ability he shows to use the knowledge he has acquired.

—HERBERT SPENCER.

Unbalanced Business

"The large rewards in industry and commerce appear to be reserved for the executives who,in addition to the mechanical appliances which human ingenuity is constantly devising, bring to their task the ability to organize."—Page 8, Chapter I, Volume 4 of the MODERN BUSINESS TEXT.

The newly installed president of a company that manufactures belting and transmission machinery startled his associates whom he had called together for a discussion of the existing conditions by saying abruptly and emphatically:

"The trouble with this business is that it is unbalanced. It reminds me of nothing so much as an over-bred bird dog. You've seen them—all legs and no nose, or all nose and no staying power. With us, as I see it, it is all legs and no nose. We run a lot but we don't stir up many birds."

The other men looked at each other and at the president in a manner that plainly showed they did not understand or that if they understood, they did not see the application of the simile to the business of the company.

Finally the aged vice-president spoke. He had been with the company since its beginning, nearly a quarter of a century ago, and had been closely

associated with the former president who, under unmistakable pressure from the board of directors, had recently resigned to give place to the new executive. The latter had come not only from another concern, but from an entirely different line of business. The vice-president regarded the statement just made as an unjust reflection upon the ability of his former associate, for whom he entertained a high regard, and his sense of loyalty impelled him to register his protest.

"I think I may say," he began, "that our factory organization is the equal of any to be found in this part of the country. Our former president, my esteemed friend, John Dunlap, with my assistance, worked out a system that has given us a very fine organization, I think; and, as for me, I don't see that it lacks either balance or anything else, except that orders are somewhat slow."

"Granted," interrupted the new president; "I am aware that you have a finely worked-out organization plan, and I am ready to believe that the workmen are most loyal and efficient; nevertheless, I maintain that this business is unbalanced."

The vice-president said no more tho the look of reproach was still in his eye.

Mechanical Perfection

The superintendent next spoke. He, too, was an old official. He had, in fact, been the moving spirit in laying out the plant, and he it was who always had taken the initiative in securing additional equip-

ment and installing new labor-saving machinery. He took considerable pride in being regarded as the mechanical expert of the plant, and was not at all disposed to tolerate without protest anything resembling a slur upon his technical skill.

"No men ever had better tools to work with, either," he said. "Everybody knows that ours is the best equipped plant of its kind within fifty miles, and I know it is properly laid out, for I have laid it out myself."

The president suppressed a faint smile as he nodded energetically in the direction of the superintendent. "I am willing to grant you that the plant is laid out with great care, with perfect regard for symmetry, and with ample space for growth."

The superintendent, evidently relieved at the president's generous acknowledgment, concluded there was nothing more to be said on the subject, as far as he was concerned.

Neglected Functions

"Yet for all that, my statement holds. This business is unbalanced. The energies of the management have been spent almost entirely in an attempt to perfect the production end, but the selling activities appear almost to have been left to take care of themselves. That is what has made this business unbalanced."

This was in fact so, as all had to admit who knew the circumstances. There could hardly be said to be any sales department at all, and certainly not an efficient one. Most of the sales came in thru jobbers

—houses that handled similar goods from other manufacturers. The jobbers' salesmen were not, of course, very familiar with the product, and knew nothing whatever about the plant where it was made or about the men who made it. There was no reason why they should push these goods above others that they carried. They were, in fact, merely order-takers. And since only a very limited amount of advertising was done by the house, the work of creating a demand for the goods on the part of factory owners was necessarily slow and on the whole decidedly unsatisfactory.

The factory was equipped for a much larger production than had ever so far been called for, and only by the practice of rigid economy in men, material and overhead, had it been possible to keep things going. But the directors had become tired of this no-dividend policy, and the task of showing a reasonable profit within a year had been put squarely up to the new president.

The situation was discussed freely at this first meeting of the officers with their new president, whose experience in reorganizing business concerns had made him familiar with the ordinary weaknesses of industrial enterprises.

Common Tendencies

"Every plant that I have visited so far," he said, "has been more or less unbalanced. Either the efforts run to sales, while production is neglected, or it is the other way around. An energetic sales

manager preaches 'sales organization, sales organization' and shows by figures what profits can be made, if only there is a large number of first-class salesmen. And the management, carried away with the sales manager's enthusiasm, spends money lavishly for the purpose of acquiring and maintaining such an organization. In the meantime, production is not organized to keep pace with the sales effort. Frequently, a national campaign of advertising is begun before the factory is ready to deliver the goods. Inquiries of local dealers for the goods advertised in this way, reveal the fact that the dealer's order is still unfilled. When under the whip of the sales department an attempt is made to speed up production, existing weaknesses quickly come to the surface. Either there is not enough raw material on hand, or the material is an inferior quality. Either there are not enough machines in the shop or there are not enough men to operate them. If green hands are pressed into service, the product does not come up to standard, and is rejected. The result is dissatisfaction, confusion and loss of time and money.

"When all the effort runs to production, the result is even worse. For no plant, however well laid out and equipped, ever made dividends for the stockholders unaided. The finest product in the world yields no profit until it is properly marketed. Pretty soon the finished product accumulates at a rate that makes lay-offs and shut-downs necessary. The overhead eats up the profits and calls for more, with the result that assets dwindle and credit becomes

tighter. Stockholders grumble at the remote prospect of dividends, and unless there is a change of policy, the disorganized business, sooner or later, finds itself in a receiver's hands or undergoes dissolution in the bankruptcy court."

Sore Spots

The president went on to show how in the present case there had been a manifest lack of coordination of departments and how a narrow policy of specialization had cramped the vision of department heads until they could see nothing but that fraction of the whole which they were set to watch.

"A man may be such a good specialist that he is all but worthless to the plant that employs him," was one of his characteristic statements that made several of those present move uneasily in their chairs.

"Some men think so much about their reputation as experts that they have no time left in which to think of the welfare of the business," was another. He was looking straight at the superintendent, but that official sat with gaze averted, tho the high color on his face showed plainly enough that he was not oblivious to what was going on.

"Again, you find some men," the president continued, "whose respect for tradition and for time-honored methods is so great that it makes them both blind and deaf to the demands of modern business. They live in the past and there's where they belong. With them it is 'So-and-So did this or said that or wrote the other, and we must not presume to improve upon the methods of that wonderful man.'"

Here the vice-president showed unmistakable signs of agitation, but altho he opened his mouth as if to speak, he evidently thought better of it and remained silent.

The Effect of Organization

"Now, gentlemen," the president concluded, "I am not going to discuss what for us henceforth must be ancient history, but I want to discuss with you here and now that sort of organization that is to make this a perfectly balanced business. It is for you and for me to carry it into successful operation."

At that meeting began a re-organization of departments and functions that eventually led to a complete transformation of the business, and that put it upon a paying basis, on which ever since it has remained with growing dividends for its stockholders. Not only was the building of an efficient sales organization begun at once with a competent sales manager at its head, but production departments were overhauled, new functions created, and some older ones abolished, just as responsibility was definitely placed, production standards prepared, cost studies instituted with a view to determining with exactness both labor and operating costs.

Thruout the plant, the organizing power of the new president was felt, and even in the selection and instruction of workers his genius for organization found scope for exercise. The benefit was apparent to all.

Organization is little more than the application of common sense to the functions of business—collectively as well as individually.

Structural Imbalance

The case just related was one of structural imbalance rather than departmental. We must not confuse the two. Both are important, but they are distinct. The organization of workers with a view to routine efficiency is one thing; the organization of departments and functions with regard to their place in the structure of the business is quite another. The latter comes first, because it is the broader kind of organization. The former naturally follows.

Departmental imbalance is a local ailment; structural imbalance is a constitutional disease.

Originally, business was without form or organization of any sort. It consisted merely in the exchange of commodities under conditions of the crudest kind. As civilization progressed, however, business activities gradually underwent an evolution. Economic laws influenced and directed this development, and today it will generally be found that the most successful concerns are those that adhere most closely to these laws. The history of business development is to every business man an interesting study.

Regardless of all monoply considerations, a successful business today is largely the result of structural

organization reared on a thoro-going study and understanding of basic truths.

The Standard Oil Company has popularly been condemned as a trust; yet when one studies its physical structure, the conviction becomes strong that monoply was not the sole source of its achievement. The physical organization of American typewriter concerns and of companies that produce talking machines, cash registers, sewing machines, calculating devices and many other products, can also be studied with profit in this connection. As a rule, these corporations have both their departmental and their structural organizations developed to a very high degree. They are managed by big men—not, let it be noted, by mere specialists in some phase of organization. The manager, to insure success, must be more than a narrow specialist. That is the lesson that experience teaches.

The more we look into the history of big business concerns, the more convinced we become that the business men who fall short of success, do so because they lack a proper sense of the importance of structural requirements.

Organizing a Working Force

Of course, into the question of organization many other questions enter—not the least of which is the human element. Whether it is the organization of a factory, an office or a sales department, a knowledge

of right principles is demanded first of all. The planning of physical arrangements of buildings, machines, furniture and the like does not present any great difficulty if the person to whom this duty is delegated has a correct knowledge of fundamental principles. Necessarily, he must also understand thoroly the details of his own business. To organize departments and to delegate duties is undoubtedly a more difficult task, but the most difficult as well as the most important problem of all is the handling of men.

In an eastern city of a little less than 400,000 population, was a merchant who always talked a great deal about his "organization." Both in public and in private, to his customers as well as to his clerks he would frequently dilate upon the "organization" he had built up. He conducted a general store in which were employed all told about 100 clerks.

But to this merchant, "organization" meant chiefly an aggregation of rules, systems and disciplinary measures by means of which he might be certain that his own arbitrary commands were carried out. His dominating aim—tho he would probably have denied it—was to obtain from his employes the greatest amount of work for the least amount of money. To this end he sought by rigid supervision, by crowding, by fines and by other forms of exacting discipline of his own invention to put his clerks on their mettle. If a clerk were even a minute late in the morning, an assessment was

made against his or her wages and this tax increased with the repetition of the offense.

In most cases violations of rules were computed on a financial basis; and rules were so plentiful that to avoid transgressing one or more of them during a day's work was extremely difficult. Infraction of the more important rules was punished by putting the clerk on probation. Two repetitions of the offense resulted in discharge. On the other hand, the merchant with a fine show of generosity once a year gave his employes an outing at his expense. On that occasion, the store was closed for a whole day and vehicles were provided for the picnic or a boat for the excursion as the case might be. The event was duly announced in advance and the local papers never failed to laud the merchant for his liberality and philanthropy. It was commonly supposed that this annual outing exerted a strong influence in the direction of increasing the efficiency and loyalty of the clerks thruout the year. In addition to this yearly frolic, the merchant periodically gave to his more deserving employes, in accordance with a system he had worked out, tickets to the local moving picture theatres.

A Mistaken Policy

Here, then, were the means whereby this merchant sought to cultivate loyalty, industry and efficiency on the part of his employes. They have been employed by others both before and since.

But despite its so-called "organization" and the "liberality" of its owner, the business had never

been successful. For a period of ten years it had fluctuated between apparent success and threatened failure. In fact, during the last two years before it was reorganized, the only thing that kept it out of bankruptcy was an era of prosperous times. Then came a time when crop failures and financial disturbances upset the markets. The store promptly closed its doors.

The Reorganization

During the following two or three months, there seemed to be no prospects of continuing the business. Then a metropolitan wholesale house—fully acquainted with the history of the store and with the future prospects of the business—acquired a controlling interest. A man from that city was immediately sent to take charge of the enterprise for the purpose of putting it on its feet.

The wholesale house had diagnosed the case correctly. The failure was not due to the panic, but to faults of organization. There were no serious structural faults, but there were serious faults with regard to that other important phase of organization that has to do with the human material in a business establishment. In a certain sense, a business is like a machine; its parts may have been assembled correctly yet the operation may be a failure. Its wheels, pinions and springs may have been put together with mechanical skill, yet if the motive power back of it is insufficient, it can't run.

The motive power of a business is found in the men and women within it.

When the new manager took up his task he promptly began to reverse some of the former owner's pet policies. The new manager's views upon "organization" were not at all those of the former owner. The old disciplinary methods were at once abolished. Under the new policy, discipline was made largely automatic. The workers in the store came to realize that true organization has as one of its basic elements an adequate form of incentive other than fear of the lash; that organization includes the art of developing the abilities of each employe until he gives to the business all he is capable of giving. The new manager found his chief problem to be—in addition to the proper selection of workers—the task of inducing the men and women of the store to give of their initiative freely and gladly. Discipline, he perceived, was best maintained by means of opportunity given for increased income and for better conditions.

The store has grown to be one of the most successful enterprises in the state and now employs nearly 300 clerks. It is admittedly leading the trade of its city.

> *Discipline that stifles ambition, that chokes initiative, that shuts out confidence and affection, eventually destroys the business in which it is employed.*

Synopsis

In the thirteen chapters which compose the current reading assignment, the author develops in their

logical order and in an interesting manner the elements of successful business administration. After an introductory chapter, he discusses in Chapters II-IV, the three main elements in administration, namely, planning, orders and supervision. Chapters V-XIII cover the ground of business management, including therein a study of rewards and penalties as applied to workers for the purpose of their development.

The chapter on "Organization of Administration" (Chapter VIII) is particularly important and will be read with a great deal of interest. The analysis of staff and line organization in this chapter is illuminating, as are the other subjects discussed therein.

In Chapters IX and X we are again invited to consider management as related to factory and office, notably the various types of management that obtain. In the last three chapters of our assignment, planning is the main theme, and this is no doubt the most important part of an executive's work. The chapters deserve to be read with great care.

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